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POPULATION TRENDS AND PUBLIC POLICY

Juggling Jobs and Babies: America's Child Care Challenge

by Martin O'Connell
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Summary

The most remarkable trend in the U.S. labor force over the past three decades has been the entrance of more and more mothers of young children. In 1985, 54 percent of the women with children under age 6 were working—four times the 1950 level. Whether these women are low-income single mothers working out of economic necessity or married professionals working for personal fulfillment and a better lifestyle, they face a similar dilemma: how to care for their children.

Because this is a fairly new phenomenon, the infrastructure supporting a child care industry for preschool children is only beginning to emerge. Confronted with inadequate child care and outdated personnel policies, these women are pioneering new frontiers in many areas with important policy implications. This report summarizes the recent trends in labor force participation and outlines some of the obstacles faced by working mothers as they attempt to juggle job and family responsibilities. It shows that the lack of affordable child care is probably preventing many poorly educated and low-income mothers from working at all, when they are the women who need jobs the most.

Child care is expensive, making it a major household budget item. Low-income mothers may need free babysitting by relatives in order to work. But most women must pay for child care. Many are relying on babysitters or group centers away from home which cost $50 to $100 per week.

Policy responses to the need for more flexible personnel policies and more affordable child care have been varied and inconsistent, reflecting ambivalence about whether it is in the public interest to make it easier or harder for mothers to work outside the home while their children are young. But women are expected to retain and even increase their share of the American work force. The need for quality child care arrangements will also increase.

Employers are beginning to initiate some new policies which ease the child care burden on mothers, directly or indirectly, including:

- more flexible work schedules which facilitate child care arrangements
- job benefits which include payment for child care
- employer-sponsored on-site child care centers
- more liberal maternity and paternity leave
- use of sick leave to care for children

But only a small fraction of American women are now eligible for such benefits. Most employers will need coaxing by federal, state, and local governments to adopt progressive child care policies, even though such actions might actually serve their own interests by improving employee loyalty and job satisfaction.

Public policymakers from the federal down to the local level are becoming more involved in the child care dilemmas faced by working women. Policies enacted include tax credits for child care costs, federally funded child care for some low-income parents, regulation of the child care industry, and tax rulings on flexible employee benefits plans.

The 1986 tax law retains the tax credit for child care but includes other provisions which may complicate job decisions for some mothers. The U.S. Congress is considering many other laws with implications for parents including a liberalization of maternity and paternity leave benefits. Local governments are active in encouraging employee-sponsored child care and in the regulation of care providers.

The continued demand for child care by working parents and the growing influence of women in the workplace may encourage broader changes in personnel benefits, tax laws, and other aspects of women's lives that will make juggling jobs and babies a little easier.

Juggling Jobs and Babies: America's Child Care Challenge

by Martin O'Connell and David E. Bloom

The past three decades have seen profound changes in the labor market activity of American women. The 53 million women in the labor force in 1986, 44 percent of the civilian work force, were over three times the number working just after World War II. But the most remarkable aspect of the feminization of the American work force has been the growing involvement of women with preschool-age children. Barely one out of every eight married women with a child under age 6 was working in 1950; this statistic skyrocketed to more than one of every two women by 1985. This trend, showing few signs of abating in the near future, has catapulted the child care concerns of American families out of the home and into the economic and political arena of employers, government policymakers, and local regulatory agencies governing the operations of child care centers.

Increases in the number and proportion of children living with single mothers—whether separated, divorced, widowed, or never married—raise numerous issues for employers and policymakers on how to accommodate the child care needs of these mothers. In 1985, one-fourth of all working mothers with dependent children were not currently married. One-fourth of these women failed to receive child support payments owed by the child's father, and 40 percent were not awarded any child support payments at all.[1] There is a great deal of pressure on an unmarried mother to work: she is usually the principal breadwinner for her family.

Why More Women are Working

There is no simple explanation for the skyrocketing labor force participation rates* of women. Rather, it appears that these trends arise from a complex set of factors. First, labor shortages experienced during World War II drew record numbers of women into the job market. Most of these women left their jobs at the war's end when returning veterans sought jobs and America entered the Baby Boom. However, many women stayed in the labor force after the war, contributing to the social acceptability of women working outside the home.

Child care issues have become a national concern.

A second critical factor which favored women entering the work force was the introduction of the contraceptive pill in the late 1960s. Widespread use of this first really convenient and effective contraceptive enabled women to choose if and when to have children. This newfound freedom led many women to postpone childbearing to continue their education and begin a career. Also, with marriage rates declining and divorce rates increasing, many women faced the need to be economically independent.

A third factor of some importance is the eco-

*The **labor force** includes persons over age 15 who are working or looking for work. The **labor force participation rate** is the ratio of the number of persons in the labor force to the total number of persons over age 15 in the population.

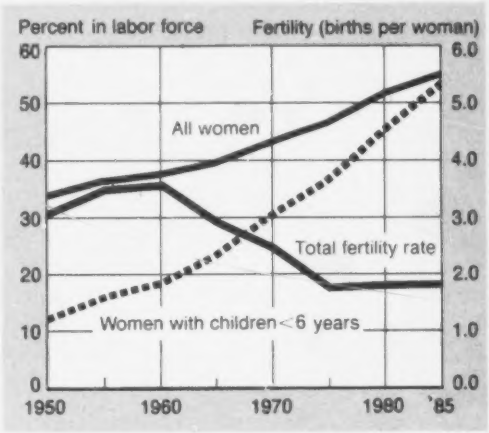
nomic problems faced by the Baby Boom cohorts when they reached working ages. The 76 million Baby Boomers, born between 1946 and 1964, overwhelmed the labor market because there were not enough new jobs. They earned relatively low wages and suffered from high unemployment rates.[2] Two incomes, especially during a long period of inflation, became necessary for many couples to attain a desirable standard of living.

Many other factors, such as the growth of traditionally female jobs in the service sector, operated to lure women into the paying work force. It is equally significant that these factors operated against the backdrop of social revolution in the 1960s and 1970s which facilitated the rejection of old values. One of the major casualties was the prestige of the American housewife who was often viewed as a servant to children and husband.

Documenting the Trends

In 1950, only one in three females aged 16 and over were either at work or looking for work. But the 1960s marked a turning point in the demographic composition of the labor force and the emergence of the current trend among women to enter and stay in the labor force (see Figure 1). This trend coincided with a sharp decline in the birth rate from an average of 3.7 children per woman during the peak of the Baby Boom in 1957

Figure 1
Labor force participation for all women and women with preschool children and total fertility rate, 1950-1985*



*Average number of children per woman

Source: ref. 1

Many mothers of young children are working even if they plan another child soon.

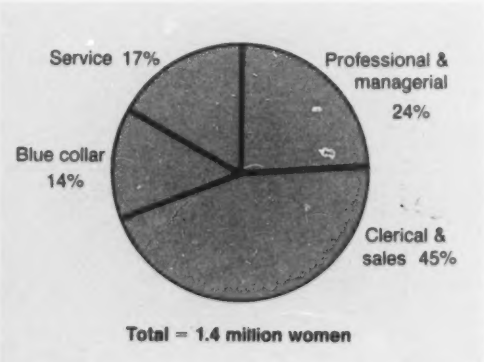
to 1.8 children by 1975, where it has remained during the 1980s. As expected, fewer children and delayed childbearing prompted more women to enter the labor force, but the rate for women with dependent children increased even more sharply than for all women. By 1985, 54 percent of the women with children under age 6 were working, only 1 percentage point below the rate for all women. Even more remarkable was the increase in the rate for women with newborn children, from 31 to 48 percent between 1976 and 1985.[3]

There has also been some change in the types of jobs women do. However, with some exceptions, the segregation of women in certain types of jobs continues. Women still predominate in schoolteaching, secretarial positions, and nursing. Few women work as firefighters, construction workers, or engineers, although their representation in non-traditional jobs is increasing.

More women are entering the male-dominated professions. While 20 percent of lawyers and 18 percent of medical doctors were women in 1986, in 1970 women accounted for only 5 and 10 percent of these professions. In fact, as of February 1986, women made up a majority of all professional workers, including teachers, in the United States.[4]

But most American women work in less prestigious jobs. Figure 2 shows that, in 1985, 45 percent of the mothers of newborn children worked in clerical and sales jobs, 31 percent in service and blue collar jobs, and only 24 percent in higher paying professional and managerial positions.

Figure 2
Working women with newborn babies by occupation, 1985



Source: ref. 2

A new and somewhat surprising trend is the growing number of female entrepreneurs. From 1976 to 1986, the share of small businesses owned by women soared from 5 to 25 percent. Small Business Administration projections show that 50 percent of small businesses will be woman-owned by the end of this century.[5]

A variety of factors underlie this trend, including the growing number of two-paycheck families in which capital for starting a business may be easily available. The establishment of federal equal credit laws have made it easier for women to borrow money. Some women entrepreneurs report that they began their own business to escape employment hierarchies that discriminated against women; many others say that they wanted more flexible hours, making child care much easier.

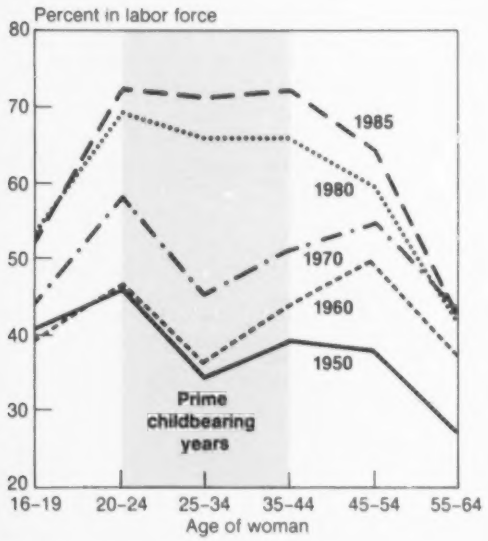
Combining Family and Jobs

A new norm has emerged in the past decade: that most women will work, regardless of their short-term plans for childbearing. In the 1950s and 1960s, women normally held jobs outside the home only before starting a family and after their children were old enough to care for themselves. Labor force participation rates by age for these years show a "double humped" profile (Figure 3), reflecting high rates in the early twenties and after age 35, but low rates between ages 25 and 35, the ages when most women are raising children. By 1985, the valley between the two humps had almost disappeared; women were not leaving the labor force during those prime childbearing years.

Part of the changed pattern of labor force activity can be explained by more women delaying childbearing or remaining childless, but it is also because women are more willing and able to intertwine jobs and family creation. In 1976, only one-third of the mothers of newborn children who wanted another child in the next five years were in the labor force, compared with nearly one-half of women who expected no future births. Clearly, these mothers were conforming to the traditional norm by staying home until completing their families.

Comparable data for 1983 show that women expecting at least one additional child within five years were just as likely to be working as mothers with no immediate plans for more children. About one-half of both groups were working.[6]

Figure 3
Labor force participation for women by age: 1950-1985



Source: ref. 3

Balancing Personal and Professional Lives

The growing number of women working raises a number of very difficult issues for them and their families. Indeed, most working women face a tremendous personal struggle in trying to balance their personal and professional lives.

Thirty years ago, the life course of a typical woman involved her graduating from high school, marrying, having children, and staying at home to care for her family. Some married women worked, but few actively planned their careers the way men did.

Today, while many still follow the old patterns, a growing number of women are establishing a new pattern in which they delay, or ultimately forego, marriage and childbearing to establish themselves in a career. Among those women who eventually do marry and have children, many interrupt their careers for just a short time to care for their children. They may switch from full-time to part-time work for a few years to maintain their jobs and keep their skills from depreciating. Only a small number of women leave their jobs permanently to concentrate on raising a family.

Many women find it extremely difficult to decide whether they are mothers who happen to work, or workers who happen to be mothers. They lack role models, facing dilemmas their mothers and grandmothers never had to confront. Their simultaneous involvement in career and mothering entangles many women in exhausting lifestyles. About one-third of working women ease this burden by hiring domestic help, although most housekeepers do less than half the necessary housework. Husbands are not much help either. A recent *Newsweek* survey found that "only 14 percent of husbands in two-earner families perform as much as half the housework, and 60 percent do less than one-quarter."

The amount of pure leisure time available to women has declined by about 20 minutes per day over the past quarter century[7] because the increase in the number of hours working for pay has not been associated with a similar decrease in the time spent on housework and child care. Leisure time is a scarce resource for working women. Working women fuel market demand for goods and services that help organize their time, such as microwave ovens, VCRs, home computers, and automated bank tellers. But the purchase of child

Most working women struggle to balance their personal and professional lives.

care services is the primary way working mothers of all income levels balance the competing demands of the workplace and family life.[8]

Caring for Children at Work

Some women are able to satisfy work and child care duties simultaneously. Table 1 shows that in 1982, 9 percent of employed mothers with preschool children cared for their youngest child while at work. About one-third of these mothers actually worked out of their homes; over one-half worked part-time.

Self-employed women have the best chance of looking after a child while at work. In 1982, one-half of the self-employed mothers of preschoolers cared for their children while at work. But 90 percent of all working mothers of preschool-age children are government or private employees where, constrained by office or factory environments, only 5 percent manage to combine child care with their jobs.

Projections of future trends in the number of mothers caring for children while at work depend upon the future structure of the workplace. Due mainly to the computer revolution, more jobs are expected to be located at home in the future. While only selected occupations could realistically be relocated to an employee's home, likely candidates include many traditional female jobs such as typing and bookkeeping.

Which Mothers Are Working: Four Profiles

The most remarkable growth in the female labor force in the postwar period has been among women with very young children. Between 1976 and 1985, especially large increases were experienced by mothers with newborns who were (1) 30 to 44 years old; (2) white; (3) divorced, separated or widowed; and (4) who had completed a year or more of college. Conversely, black women, high school dropouts, and young, unwed mothers had modest gains in labor force participation.

Some of this change can be summarized in the four profiles of American mothers presented below, which compare labor force participation rates in 1976 and 1985, based on a statistical analysis of survey data on mothers with newborn babies (see Figure 4):

1. **The Young Mother:** A young married white woman, whose first child was born before she was 24 years old. Her formal education stopped with high school graduation. The chance of her returning to work within a year of the birth of her child was 34 percent in 1976; in 1985, it was 54 percent, a substantial increase.

2. **The Delayed Childbearer:** A married white woman whose first child was born after age 24 and who completed some years of college. Forty-four percent of the women in this category worked in 1976. By 1985, this percentage had risen to 64 percent.

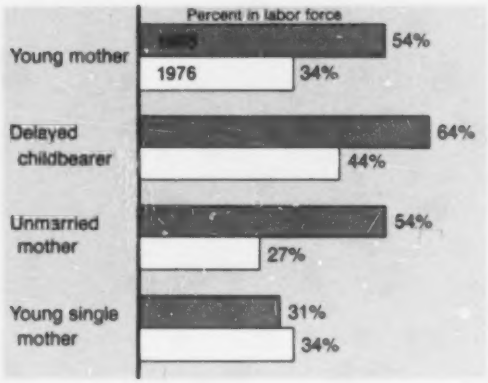
Table 1

Employed mothers caring for a preschool child while working, 1982

	Number of mothers (thousands)	Percent caring for own child		
		Total	Place of work	
			Home	Outside home
All mothers	5,087	9%	3%	6%
Full-time	3,263	6	2	4
Part-time	1,824	14	5	9
Employer				
Private	3,821	5	2	3
Government	791	2	1	1
Self-employed	391	51	12	39
Works without pay	84	51	23	28

Source: ref. 4

Figure 4
Labor force participation among mothers with newborn children, 1976 and 1985



Source: ref. 5

3. **The Unmarried Mother:** A white woman, aged 25 to 44, from the growing ranks of the formerly married. A high school graduate with two or more children, her chances of working within a year of the birth of her last child doubled in the past decade from 27 to 54 percent.

4. **The Young Single Mother:** A black woman, 18 to 24 years old, with two or more children. She has not married, nor has she finished high school. Her chances of working have actually decreased over the past decade, from 34 to 31 percent, and in relative terms, she has lost ground to her contemporaries. While less common than the other women profiled here, she is not atypical of a growing percentage of women with out-of-wedlock births.

In general the profile of the mother most likely to return to work before her baby's first birthday conforms to the human capital theories of labor force behavior: the greater the investment of time and money in education, the more rapid the return to work after childbirth to minimize losses in earnings and depreciation of job skills. In addition, an investment in schooling may indicate a great personal commitment to a career. And women who have spent many years in school may have delayed marriage and would, on average, have fewer children than less-educated women.

But it is not only potential earning power which encourages women to work, but potential wages in relation to the costs of working. For mothers of small children, child care is usually the greatest expense. The primary reason for the leveling off of labor force activity among black women and high school dropouts, who earn lower average salaries than other women, may well be a lack of affordable child care.

Child Care Problems a Major Constraint

In a special 1982 Census Bureau survey, nonworking mothers with preschool children were asked if they would look for work if child care were available to them at a "reasonable cost." Their responses, combined with actual labor force data, can be used to estimate the potential percentage of women who would seek jobs if child care were cheaper and more widely available.

The survey found that considerably more mothers of young children would work if they had access to reasonably priced child care. This is especially true for unmarried women, black women,

For mothers of young children, child care is a major expense.

women who never finished high school, and for women from low-income families (Figure 5). These are the same groups of women whose entrance into the labor force slowed during the past decade.

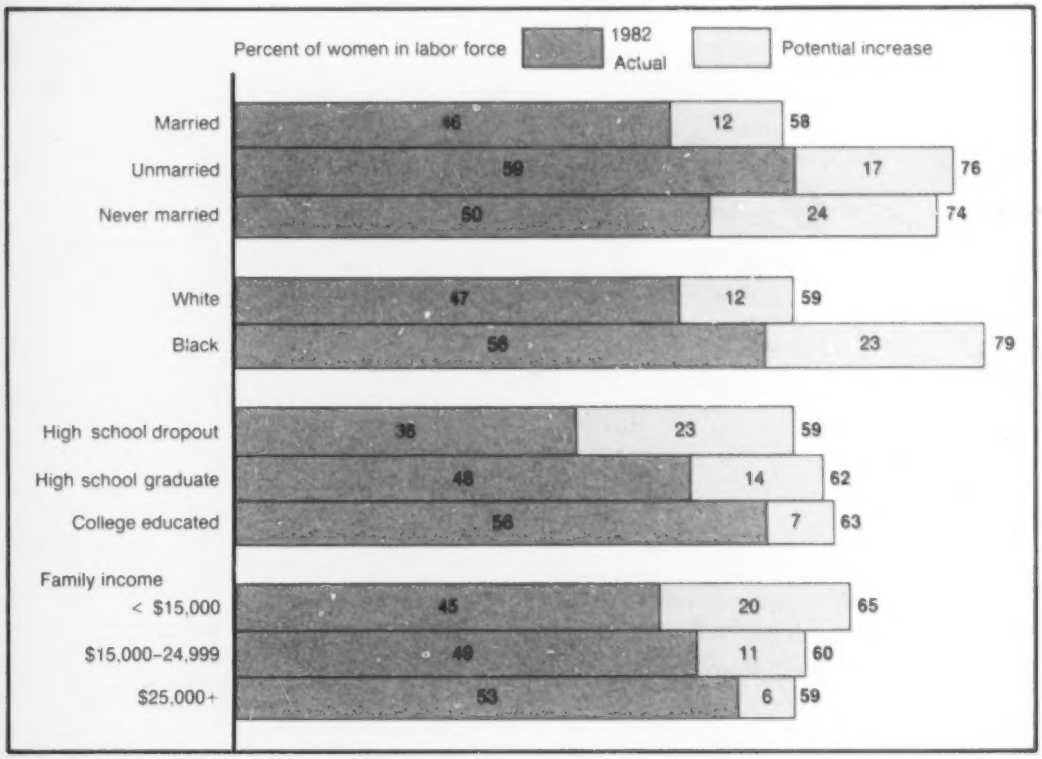
About 13 percent of women with preschoolers said they would look for work if child care were available at a reasonable cost. This figure contributes to a "potential" rate of 62 percent for women with preschool children in 1982 (i.e., the sum of the 48.1 percent already working and the 13.4 percent who said they would look for work). Child care is a greater obstacle for single than for married women. The percentage of single mothers in the labor force could increase by 24 points with more accessible child care.

The biggest gaps between actual and potential labor force rates are by educational achievement. Only 36 percent of high school dropouts with preschool children were in the labor force in 1982, 20 percentage points less than the rate for college educated women. When nonworking high school dropouts were asked if they would look for work if they had reasonably priced child care, just over one-third said they would, resulting in a potential labor force participation rate of 59 percent, almost equal to the potential rate of 63 percent for the college educated.

While these "potential participation rates" are projections that might never be realized, even if "reasonably priced" child care were available, the evidence suggests that many more mothers

Figure 5

Potential increases in 1982 labor force rates if child care were more accessible



Source: ref. 4

would work if child care services were expanded,[9] and that some of the differences in whether women work may be due to their access to child care. Indeed, Sweden, which has perhaps the world's most advanced national system of child care, also has the world's highest rate of female labor force participation.[10]

Actual Child Care Choices

How do working women care for their young children? College educated women tend to transport their children to day care centers and babysitters' homes. In contrast, less-educated women rely on relatives and neighbors for child care, as shown in Figure 6 (see page 10). The type of care also depends upon the age of the child. Infants are typically cared for in a "home environment," their own or a babysitter's, but older children are frequently placed in group care centers or nursery schools. Women with several small children often use multiple child care arrangements since many nursery schools accept only children ages 3 to 5 and relatives may only be willing to care for infants. Considering the logistics of daily commuting for these women, it is no wonder that women with two or more children are less likely to work at all.

To a large extent, the type of child care a woman chooses reflects her ability to pay for outside care and the availability of relatives and neighbors willing to babysit. Typical child care costs in four major metropolitan areas shown in Table 2 indicate that families hiring a babysitter to come to their home pay as much as $200 to $300 per week, including salaries and benefits. But for most families, in-home care is provided by grandmothers or other relatives at little or no monetary cost to the mother.

There has been a trend away from in-home to group day care for older preschoolers.

Table 2
Comparative weekly child care costs in four major cities, 1985

City	Child's age	Weekly cost: Family day care*	Weekly cost: Child care center	Weekly cost: Caregiver in child's home
Boston	under 2 years	$45–160	$90–150	$260–340
	2–5 years	40–160	75–110	
St. Louis	under 2 years	45–50	65–80	165 and up
	2–5 years	35–40	50–70	
Dallas	under 2 years	50–70	60–90	165–200
	2–5 years	35–70	50–70	
San Francisco	under 2 years	55–90	90–120	165–200
	2–5 years	55–85	65–90	

*Outside child's own home

Source: ref. 6

Child care away from home, in group care centers or a babysitter's own house, costs about $50 to $100 per child weekly. Since it is less expensive than paying for in-home care, this is the option chosen by about two-thirds of the working mothers with preschoolers. Unless mothers have access to free babysitting by relatives, their annual child care costs constitute one of the largest household budget items, comparable to housing and taxes.

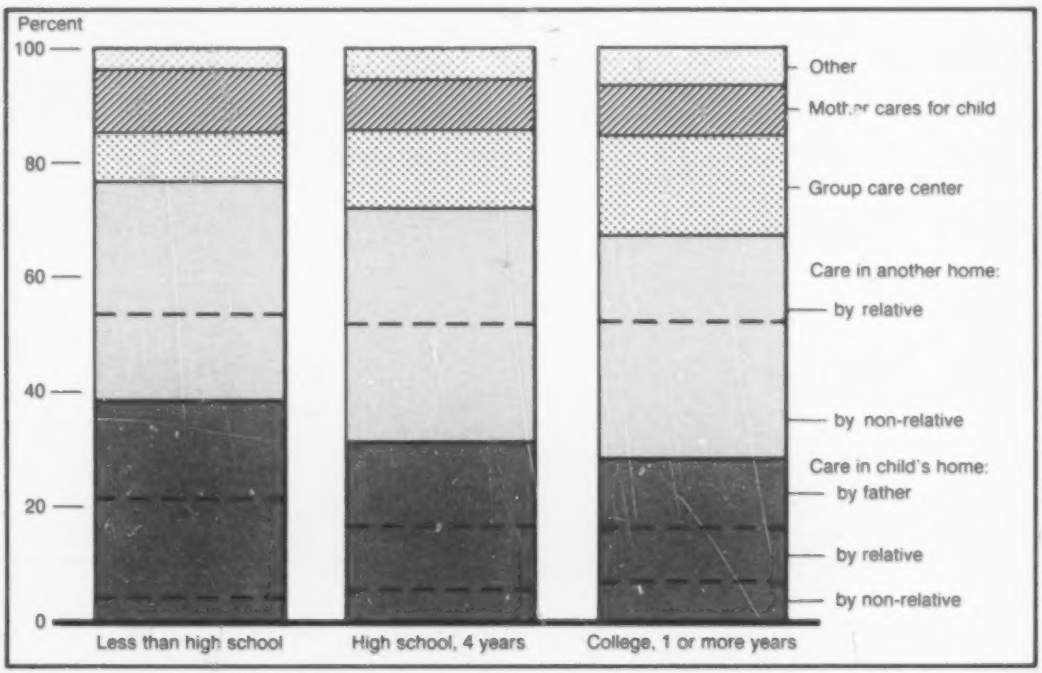
Demand Increasing

Several demographic trends point toward a continued demand for child care services in the future. First, women are having children at older ages, which means that they accumulate substantial work experience before becoming mothers. With greater job experience, they earn higher salaries and are more willing and able to pay for child care. Women's salaries will also be boosted by the tightening of U.S. labor markets in the 1990s when the relatively small "baby bust" cohorts reach working age.

Second, delayed childbearing is associated with fewer children per woman, increasing the odds that a substantial number of mothers will return to work shortly after a child's birth. However, even at the current U.S. average of only 1.8 lifetime births per woman, there will be a steady future supply of children requiring care. The Census Bureau projects about 19 million children under age 5 by 1990. Given current labor force trends, more than one-half of these children will have mothers in the labor force.

Figure 6

Percent distribution of child care arrangements of employed mothers for youngest child under 5 years old, by mother's education, 1982



Source: ref. 4

Third, women are acquiring more education—more than four out of ten women have attended college—and are developing values which deemphasize the role of the traditional housewife. Finally, the high divorce rate and high rate of births to unmarried mothers suggest that the number of unmarried women with children—a source of strong demand for child care—will continue to grow.

Taken together, these trends point to increasing demand for child care services. The future supply of in-home care by friends and relatives is limited, partly because these potential babysitters will also be holding a paying job. We can expect to see more and more families placing the daily care of their preschool-age children in the hands of non-family members.

The Child Care Industry

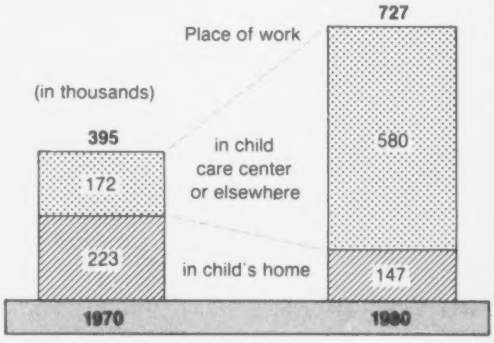
The child care industry is a small but growing segment of the service sector of the American economy. Child care businesses are defined as establishments primarily engaged in the care of infants or children or in providing prekindergarten education. In 1982, there were 30,762 establishments classified as child care businesses, up 24 percent since 1977.

Child care businesses are categorized as being either for-profit (therefore subject to federal income tax) or not-for-profit (tax-exempt). Child care businesses made up 9 percent of all tax-exempt service industry businesses in 1982 and constitute the second largest tax-exempt service industry. But the child care industry is dominated by the for-profit sector. In 1982, about 18,000 child care businesses operated on a for-profit basis—an increase of 28 percent over the 1977 figure. Not-for-profit businesses grew by 19 percent between 1977 and 1982.

Equally impressive gains occurred in the number of persons employed as child care workers. The 1980 census recorded 727,000 persons primarily employed as child care workers, up 84 percent since 1970 (Figure 7). The location of child care employment changed dramatically during this period. In 1970, over half of all child care workers were employed as private household workers. By 1980, only 20 percent were employed in private households, while 80 percent cared for children in another setting, such as their own homes or in a group care center. This shift reflects the general movement of child care services out of the child's home during this period.

Most child care workers are women, 94 percent

Figure 7
Child care workers by place of work, 1970 and 1980



Source: ref. 7

in 1980. Over 50 percent work just part-time. They earn low salaries; in 1980, the average pay for women working in group centers was only $3.13 per hour. Women who work in residential homes may earn even less and many receive no employee benefits.[11]

Public Policy Issues

The complex struggle that many women face in trying to combine careers and childbearing raises a number of issues for employers and public policymakers. Indeed, as Secretary of Labor William Brock said in 1986, "It's just incredible that we have seen the feminization of the work force with no more adaptation than we have had. . . . It is a problem of sufficient magnitude that everybody is going to have to play a role: families, individuals, businesses, [and] government."

Flexible Work Schedules. Many employers are experimenting with policies designed to make it easier for women with young children to work. One option is flexible scheduling, which encompasses such arrangements as flexitime and block scheduling. Flexitime typically allows an employee to choose his own work schedule within specified limits. For example, an employee may choose to work from 7 am to 3 pm or from 10 am to 6 pm. Block scheduling allows an employee to compress a full work week into three or four days instead of

At present, child care is seldom offered as an employee fringe benefit.

five. Flexitime and block scheduling enable women to juggle family and job responsibilities to the benefit of both employers and families. An estimated 12 percent of all full-time workers were on flexible work schedules in the early 1980s (almost 8 million employees), up from under 5 percent in 1974.

The most extensive experiment to date with flexible scheduling was conducted by the federal government, which established alternative work schedule arrangements for 325,000 federal employees over a three-year period. A 1981 government report evaluating the success of the program concluded that flexible scheduling "allows employees workable alternatives to enhance the quality of family relationships and child care." Ninety-three percent of employees said that the ability to determine their own schedules was "somewhat important" to "very important." Eighty-three percent of single parents said it was "very important."

Employer-Sponsored Child Care. A second option available to employers involves the provision of child care. Between 1970 and 1986, the number of employers providing child care facilities for the children of their employees increased from under 50 to about 2,000. But a large percentage of these new facilities are located in California and within firms in the health care industry. They represent few of the nation's 6 million employers or the 41,000 companies of 100 or more workers. About 9 percent of all employed women use day care centers as their principal child care arrangement. Only 9 percent of these women use centers in the workplace, while 91 percent rely on centers situated elsewhere. In 1985, only 1 percent of employees in medium and large firms were *eligible* for even partial defrayment of the costs associated with day care for their children. The corresponding figure for professional and administrative employees in these same firms was a mere 2 percent.[12]

There are several reasons why child care is seldom offered as a fringe benefit. The primary reason may be the employers' belief that child care is an expensive benefit that will only be used by a small fraction of their workers. According to a 1984 report issued by the Bureau of National Affairs, "an average of less than four percent of a firm's employees appear to use the [child care] service" when it is available. In addition, an on-site child care facility can mean a great deal of traveling for young children. Relying on employers for child care can complicate parents' decisions about changing jobs. Finally, to the extent that providing convenient child care might encourage employees to become pregnant, it may not seem desirable to employers. In small and medium-size businesses, employee needs for child care will fluctuate from year to year, making operation of a child care service complicated. Nonetheless, most firms that operate or pay for child care facilities for employees' children report reduced rates of lateness, absenteeism, and turnover, and improved employee satisfaction and productivity.

Flexible Benefits Plans. There are other types of child care assistance employers may offer. For example, child care information and referral services are being established by a growing number of employers. These services provide general information on the various types of care available. They may also help employees to set up arrangements.

In all likelihood, child care will be included in many of the flexible fringe benefits plans which are becoming popular. One such plan involves the establishment of "flexible spending accounts." These accounts are maintained by employers on behalf of individual employees to pay for specific benefits such as child care. Funds for the account are deducted from employee paychecks and are not subject to income tax. This lets employees avoid the payment of federal income taxes on the income they intend to spend on child care, giving them a kind of deduction on the cost. The only possible snag relates to an IRS rule that salary reductions not spent for the specific benefit at the end of each year must be forfeited by the employee. However, since child care expenses are

relatively easy to project (easier, say, than expenses for medical care), they fit well into these types of benefits plans. Moreover, Congress and the IRS have recently resolved most issues involving the tax and legal status of flexible benefits plans, paving the way for a major surge in their utilization and in the provision of child care as an employee benefit.[13]

A third set of policies that directly affect child care issues are those governing the use of employee leave. At the present time, most medium and large firms (i.e., firms with at least 100 to 250 employees) provide some form of maternity leave, although few provide paternity leave.[14] However, there is wide variation in whether maternity leave is paid or unpaid, whether other fringe benefits continue while employees are away from work, and whether employees have the right to their old jobs when they return to work. Another important issue involves the use of paid sick leave to stay home and care for ill children. Since most schools and day care centers require parents to keep children home if they show signs of illness, a mother (or less often, father) forfeits salary or annual leave if she cannot use her earned sick leave to care for her ill child. A small but growing number of firms permit employees to use their paid sick leave in this way.

Federal Policies Affecting Child Care. Public policymakers are beginning to respond to the need for relief from the serious financial burden imposed by child care. In 1976, the federal tax code was amended to permit working parents with a dependent child to take a tax credit on child care costs. At the present time, the tax code allows a tax credit of 20 to 30 percent of child care expenses incurred by working parents, depending on income. In 1986, the maximum credit was up to $720 for one dependent child, $1,440 for two or more under age 15. But the total cost of child care remains high, and tax credits offer minimal relief for low-income parents who pay little tax anyway.

Nonetheless, as an employer, the federal government itself has a long way to go in the child care arena. A recent General Accounting Office report estimates that only 1,500 preschool children of federal employees are enrolled in the 28 existing federal on-site day care centers. This represents just 0.2 percent of the estimated 700,000 preschool-age children of federal employees.

Federal involvement in child care was severely curtailed in 1981 when the Title XX program, which

Grandmothers are an important source of child care for many mothers.

provided child care funds for low and moderate income families, was made a block grant program. The funds targeted for child care were cut by $200 million as a result, and the number of children served under the program actually declined in 32 states between 1981 and 1983.

The Child Care Opportunities for Families Act of 1985 contained a provision to restore these cuts but this section failed to pass Congress. However, the 1985 act does provide funds for the training and accreditation of child care workers and for financial assistance to both public and private child care centers. The act also helps disadvantaged mothers to continue their education by authorizing $10 million to colleges and universities for the purchase of slots in licensed child care centers for the children of low-income students.

Despite the federal government's somewhat inconsistent record to date, future federal initiative in these areas seems likely. For example, although it was not voted on, a "maternity/paternity leave" bill was introduced in the House of Representatives in early 1986, under which a working mother or father would be permitted to take up to 18 weeks of unpaid leave to care for a newborn or newly adopted child or for a dependent child who falls seriously ill. Moreover, the bill would have guaranteed them the same or a similar job upon their return to work. The bill's fate may be aided by a landmark U.S. Supreme Court decision in January 1987. In *California Federal Savings and Loan Association v. Guerra* the court upheld a California law requiring most employers to grant pregnant women four months of unpaid disability leave and the right to return to their same jobs.

Learning from Sweden's Experience. Since the end of World War II, Sweden has been faced with chronic labor shortages. The government has eased this shortage by encouraging women to work through, among other measures, the establishment of an extensive network of successful government-supported day care centers. The government has also legislated a variety of other financial incentives and legal guarantees designed to make it easier for women to start a family and continue working. These policies provide for up to nine months of maternity or paternity leave (at 90 percent of full pay) with a guaranteed job upon returning to work, as well as a guarantee that a parent can receive full-time pay for working six-hour days until the child's eighth birthday.[15]

State and Local Government Actions. State and local governments throughout the U.S. are starting to form policies with implications for mothers of small children. Working mothers in five states—California, Hawaii, New Jersey, New York, and Rhode Island—are entitled to paid maternity leave under their short-term disability insurance. In Massachusetts, an experimental program has been established to provide low-interest loans of up to one-quarter million dollars to companies who establish their own child care centers. Two states (New York and California) actively sponsor child care programs for state workers, and four states (Arizona, California, Connecticut, and Florida) provide tax benefits to employers that offer child care assistance. In 1986, Fairfax County, Virginia, created an Employer Child Care Development Council to help arrange corporate child care services. This is among the first such efforts in the nation. Finally, an ordinance passed by the City of San Francisco in October 1985 requires downtown office building developers to either include space for child care facilities in their buildings or to contribute one dollar per square foot of office space to a city fund to finance the construction of inner-city child care facilities.

Some public and private schools provide before and after school care for students, eliminating the need by working mothers to transport their children from school to a babysitter or day care center. As of 1984, however, only 100 of the nation's 15,000 public school systems offered this service.

Some businesses sponsor child care centers right in their office buildings or factories.

The U.S. Supreme Court has upheld a pregnant woman's right to maternity leave.

Outlook for the Future

In the future, tight labor markets will make it harder to replace experienced female employees who leave work to start a family. Employers will have an incentive to cater to the special needs of working mothers. As discussed above, such practices include flexible work schedules, the provision of day care assistance, the establishment of maternity and paternity leave, and the use of employee sick leave to care for sick children. Another possibility is job-sharing, in which two or more part-time employees share one full-time job.

Over the next decade, at least 75 percent of all new jobs are expected to be in the service-producing industries. This rapid growth of service sector jobs, with relatively flexible time requirements, should favor the development of new personnel practices. We can also expect to see more women starting their own businesses and more women and men working at home so they can personally care for their children. Continued low marriage and fertility rates and high divorce rates will also serve to keep women in the labor force.

Most experts agree that women are permanent members of the American labor force. This "feminized work force" can be expected to demand better child care services and seek ways to lessen child care expenses. However, one factor that injects some uncertainty into the future is the Tax Reform Act of 1986, passed by Congress and signed by President Reagan. Designed to relieve some of the tax burden on families, it increases the amount of the income deduction for a dependent child from the 1986 level of $1,080 to $1,900 per child in 1987, with minor increases thereafter.

The new law also makes it less cost effective for some wives to work by eliminating the deduction for married couples when both work. This reinstates the "marriage penalty" by which two-earner couples pay more tax on their combined incomes than they would if they were single and filing separately. Indeed, in signing the tax bill President Reagan said, "We're going to make it economical to raise children again," hoping perhaps for a return to the 1950s era family with one male breadwinner. This could dampen the expected increase in the demand for child care, depending, of course, on how women actually respond to the new tax provisions. Labor force participation by single and low-income mothers is not likely to be affected by these tax changes because, first, they tend to pay less tax anyway, and second, the mother is often the primary breadwinner for her family.

One effect of the "feminization" of the U.S. labor force may be to accelerate change in American personnel practices through enactment of laws favoring working mothers and through direct pressure on employers. Existing evidence suggests that businesses owned or managed by women are more likely than those run by men to adopt innovative personnel policies, especially policies important to women. As more women enter the highest levels of American business and as "old-girl" networks achieve more clout in organizational power structures, the many factors that hinder women's abilities to combine careers and families may well subside.

Overall, the increased entry of women into the labor force has altered the American labor system irrevocably in terms of the work that gets done, the profile of the workers, and the terms and conditions under which they do it. Rising wages and innovative personnel practices should help to relieve both the financial burden and complex logistics of child care arrangements. While gender will probably never completely disappear as an important labor market variable, its significance will almost certainly be eroded. But for mothers of young children, adequate child care will always remain paramount in their ability to compete for jobs on an equal basis with men.

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POPULATION TRENDS AND PUBLIC POLICY

America's Welfare Population: Who Gets What?

by William P. O'Hare

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America's Welfare Population: Who Gets What?

Summary

Welfare reform is one of the most volatile social issues facing U.S. policymakers in the 1980s. Americans feel obliged to aid people who cannot care for themselves but disagree about just who those people are and how best to help them. And the public image of welfare programs and the people who use them is riddled with misconceptions.

Welfare programs are usually thought of as government handouts for poor people. In fact, only 60 percent of the population below the poverty level receive welfare, and many welfare recipients earn incomes above the poverty level.

Welfare must also be distinguished from other government social spending. In 1984, 47 percent of American households directly received funds or services from the government. Most of this was not welfare but Social Security, Medicare, or veteran's benefits paid regardless of recipient income or assets. Only 19 percent received *welfare*, that is, government aid to needy persons enrolled in specific welfare programs. Welfare programs require applicants to demonstrate need through a "means test" based on income, family size, age, or other factors. Means-tested programs, i.e., welfare, typically serve low-income families with children, the disabled, or the needy elderly, and account for about 11 percent of the annual federal budget. Most welfare benefits are not cash, but services like food stamps, medical care, or subsidized housing. Only 8 percent of households got cash welfare benefits in 1984.

Women, especially with dependent children, are more likely than men to receive welfare; blacks and Hispanics more likely than whites; and children and young adults more likely than the elderly. Three-fourths of the families headed by a black or Hispanic woman received welfare in 1986.

About 48 million Americans received welfare in 1986. The percentage receiving welfare is greater among Southerners, but they get far less in benefits than other Americans, even adjusting for the South's lower incomes and living costs. Migration into the Sunbelt has actually served to hold down the nation's welfare bill over the past decade because Southern states pay much less in benefits.

States with generous welfare programs don't attract welfare recipients from other states, dispelling a common belief. Between 1980 and 1985, the states gaining the most AFDC recipients were either those growing fastest, like California, or those suffering economic problems, like Ohio.

Divorce, an out-of-wedlock birth, and, less often, a decline in income are major reasons people seek welfare. Most recipients stay on welfare only a few months or years, but a significant minority become long-term recipients.

Welfare does not contribute to the breakup of families or promote out-of-wedlock births. But it does not pull many families above the poverty line either. The "poverty gap," or the funds necessary to bring the income of poor families up to the poverty line, persists despite annual government welfare expenditures of $130 billion or more.

The future welfare population will be shaped not only by the economy and politics, but by three major demographic trends: the aging of the U.S. population, the migration of population from the Frostbelt to the Sunbelt, and the growth of single-parent families and one-person households. While the first two trends will affect the face but not the size of the welfare population, the changes in marital patterns and living arrangements will add millions to the rolls because single mothers with children and nonfamily households rely on welfare at a much higher rate than married-couple families. Between 1986 and 2000, the number of welfare households could grow from 15 to 18 million.

Current welfare reform policy initiatives focus on more uniform state eligibility rules; extending child care benefits and Medicaid to ease reentry into the labor force; and job training.

Some states have innovative new work programs to enable welfare recipients to get and keep jobs—and stay off welfare. But results are mixed, and such programs wouldn't help recipients too young, too old, or otherwise unable to work—or poor adults not eligible for welfare.

Welfare reforms could make the system more equitable and efficient, but they will not cure poverty. Our responsibility to the needy will continue and will have to be met, however imperfectly, through some type of welfare system.

America's Welfare Population: Who Gets What?

by William P. O'Hare

We are entering a period of serious debate about the role the U.S. government should play in caring for the needy. In 1986, President Reagan called for a study of the welfare system in his State of the Union address and a White House panel issued a major report on the topic within the year. A flurry of reports from prominent organizations and even popular books are challenging the conventional wisdom of government welfare.[1] During 1987, Congress will be considering welfare reform legislation which could increase some benefits but tighten controls on current programs. More far-reaching reforms are also being discussed.

Today's welfare system evolved primarily from two historical movements. The first occurred during the Great Depression of the 1930s, when widespread loss of jobs and property led to the creation of President Franklin Roosevelt's New Deal programs: Social Security, Unemployment Insurance, and Aid to Families with Dependent Children (AFDC). The second movement was in the 1960s, when a rethinking of welfare issues brought about Lyndon Johnson's War on Poverty and the Great Society programs, such as Medicare, Medicaid, Food Stamps, and Headstart.

We appear to be in a new phase in the definition of the social contract between individuals and society which could alter the kinds of assistance those in need can expect from government. The current system has generated countless debates and public discussions, but it has not eliminated poverty, the aim of President Johnson's effort. Even worse, some critics claim that welfare programs perpetuate joblessness among recipients and disrupt the American family. The outcome of the current efforts to revamp the system is far from clear.

Because the welfare system is complex and data are not easily available, the public's image of welfare recipients is often shaped by myth, anecdote, and misinformation. An accurate profile of the welfare population is important to evaluate the relative merits of the current system, and it is of general interest because a significant portion of the public's taxes is spent on this group of citizens each year. Furthermore, the decision about who deserves government assistance and who does not is a philosophical issue which reflects our national character.

The way government cares for needy citizens is being reexamined.

This report presents a demographic overview of the population relying on major welfare programs and provides insight into certain facets of those programs. Its purpose is to illuminate the discussion of reforms to some of our most prominent welfare programs.

Welfare versus Poverty

Welfare and poverty are closely linked in the minds of many, including policymakers, but there is little correspondence between the two concepts in government statistics. Many people who are officially poor do not receive welfare benefits and many people who receive welfare have incomes above the poverty level.

One reason for this paradox is obvious. The offi-

The Poverty Index

Families and people not living in families, or "unrelated individuals," are classified as being above or below the poverty level using the poverty index constructed by the Social Security Administration in 1964. The poverty index, which only counts money income, is based on the 1961 Economy Food Plan of the Department of Agriculture and reflects the consumption needs of families, depending on their size and composition.

It was determined from the Department of Agriculture's 1955 Survey of Food Consumption that families of three or more persons spent on average about one-third of their income on food. The poverty level for these families was therefore set at three times the costs of the Economy Food Plan. For smaller families and persons living alone, the cost of the Economy Food Plan was multiplied by factors that were slightly higher in order to take account of the relatively larger fixed expenses of these smaller households.

The poverty income thresholds are updated each year to reflect changes in the Consumer Price Index or inflation. In 1986 the threshold was $11,203 for an average family of four and the range was from $5,572 for a single person to $22,497 for a family of nine or more persons.

cial poverty level (explained above) is seldom directly used as a criterion for enrollment in government welfare programs. Only seven of the 59 "major" welfare programs use the poverty level to determine eligibility. Some 20 other programs use a multiple of the official poverty level as a means test. For example, families qualify for food stamps if their incomes are less than 130 percent of the poverty level.[2] Not one of the four largest welfare programs—AFDC, Supplemental Security Income (SSI), Medicaid, or Food Stamps—uses the poverty index to determine eligibility (see box, p. 4).

Poverty and welfare statistics are not strictly comparable because the poverty measure is based on annual income, while most welfare programs use monthly data to determine eligibility. One recent analysis shows that the number of people whose income falls below the poverty level for at least one month during the year is nearly twice the number who remain in poverty for an entire year.[3] The number of people in poverty in any given year is a very poor measure of the number potentially eligible for welfare because of low income at some point during that year.

From 1960 to the early 1970s, the number of Americans in poverty fell while the number in major welfare programs increased (see Figure 1, p. 5). But between 1975 and 1985, the poverty population grew by 28 percent while, except for Food Stamp recipients, the number of recipients in major welfare programs changed very little. In fact, three of the programs (AFDC, SSI, and Medicaid) served fewer people in 1985 than in 1975.

The number of welfare recipients has not kept pace with the growth of either the total U.S. population or the poverty population. Between 1980 and 1985, the number of U.S. households increased by 7 percent and the number of poverty households, by 8 percent, but the number of welfare households grew less than 2 percent.

These trends, spanning six presidential administrations, suggest that economic conditions, Congress, and legal decisions are at least as important as who is in the White House. For example, Supreme Court decisions in the 1960s increased the population eligible for welfare by allowing states to eliminate the "man-in-house" rule which had disqualified a single mother from AFDC if evidence was found of a man living in her home. Also, the sharp rise in the poverty population in the early 1980s was mainly due to an economic recession.

What Are Welfare Programs?

We generally use the term welfare to refer to government programs which provide money or services to people with low incomes. Since most welfare programs admit only those who meet certain conditions, i.e., they lack the means to support themselves—welfare programs are called "means-tested" programs. In this publication, the term welfare refers to means-tested programs and distinguishes "welfare" from the many other types of government assistance.

The bulk of government spending on social programs is not for welfare but for "nonmeans-tested" programs such as Social Security, Unemployment Insurance, and Medicare. For example, federal outlays for Social Security in fiscal year 1985 totaled $137.9 billion while only $79.4 billion of the public's funds were spent for AFDC, Medicaid, SSI, and Food Stamps combined. In 1985, about 11 percent of the $950-billion Federal Budget was spent on welfare. Federal, state, and most

local governments operate welfare programs, but 75 percent of the funding is federal.

The welfare "system" consists of a vast number of programs, split responsibilities, and conflicting eligibility rules which make analysis of the system difficult. Even identifying which programs are "welfare programs" is often a matter of judgment. Recent reports issued by three branches of the federal government all disagreed on the number of welfare programs: the tally of cash assistance programs ranged from 10 to 14, and the count of educational programs varied from 8 to 23.

Who Gets Welfare?

Government assistance flows into more American homes than many people realize, but relatively little of this is welfare. In 1984, 47 percent of all American households had one or more members who received some type of direct cash or in-kind government assistance, but only 19 percent received means-tested benefits. Only 8 percent of

The Big Four Welfare Programs

These four means-tested or welfare programs account for over 60 percent of all government spending on the poor or near-poor. The costs and number of recipients given are for fiscal year 1985 (October 1, 1984 through September 30, 1985). The federal government pays about 55 percent of the costs of Aid to Families with Dependent Children and Medicaid with state and local governments picking up the other 45 percent. Federal funds cover all but 20 percent of the costs of Supplemental Security Income and virtually all the costs of the Food Stamp program.

Cash Assistance

Aid to Families with Dependent Children (AFDC). This federal-state program, established by the Social Security Act of 1935, encourages the care of dependent children in their own homes by providing cash to "needy" families, with need and payment levels determined by each state. In all states, eligible families are those with children under 18 where one parent is absent owing to death, desertion, divorce, incapacitation, or incarceration. In addition, about half of the 50 states aid two-parent families with the father out of work. Each state administers or supervises its own program. *Costs:* Total, $14.8 billion; federal, $8.0 billion; state and local, $6.8 billion. *Average monthly number of recipients:* 10.8 million individuals.

Supplemental Security Income (SSI). Established by 1972 amendments to the Social Security Act, this program provides monthly cash payments to needy aged, blind, and disabled persons to help bring their incomes up to a federally established minimum level. The payments are administered nationwide through local offices of the Social Security Administration. *Costs:* Total, $10.9 billion; federal, $8.7 billion; state and local, $2.2 billion. *Average monthly number of recipients:* 4.1 million individuals.

Noncash Benefits

Medicaid. Under this program, established by 1965 amendments to the Social Security Act, the federal government provides open-ended matching payments to states to help cover the costs of medical services for members of AFDC families and most individuals eligible for Supplemental Security Income payments. Within broad federal guidelines, each state designs and administers its own program, with considerable latitude to determine eligibility, benefits, and levels of payments to service providers. *Costs:* Total, $41.3 billion; federal, $22.7 billion; state and local, $18.6 billion. *Average monthly number of recipients:* 21.8 million individuals.

Food Stamps. Begun in the 1960s and currently operating under the Food Stamp Act of 1977, this program distributes coupons redeemable for food to individuals and families with incomes below 130 percent of the poverty line. State welfare agencies are responsible for the day-to-day administration of the program within broad federal guidelines. *Costs:* Total, $12.5 billion; federal, $11.7 billion; state and local, $.8 billion. *Average monthly number of recipients:* 19.9 million individuals.

all households received some form of means-tested *cash* assistance.

Welfare programs serve all types of people, but most means-tested government aid targets two distinct population groups. One is low-income families with children, served by AFDC, School Lunches, and related programs. The other, less numerous, group consists of the blind, the disabled, and the needy elderly—the typical SSI recipients. Many of the poor receive no government benefits. In 1985, only 35 percent of the households with incomes below the poverty level received cash welfare benefits and only 59 percent received any kind of means-tested benefits.[4]

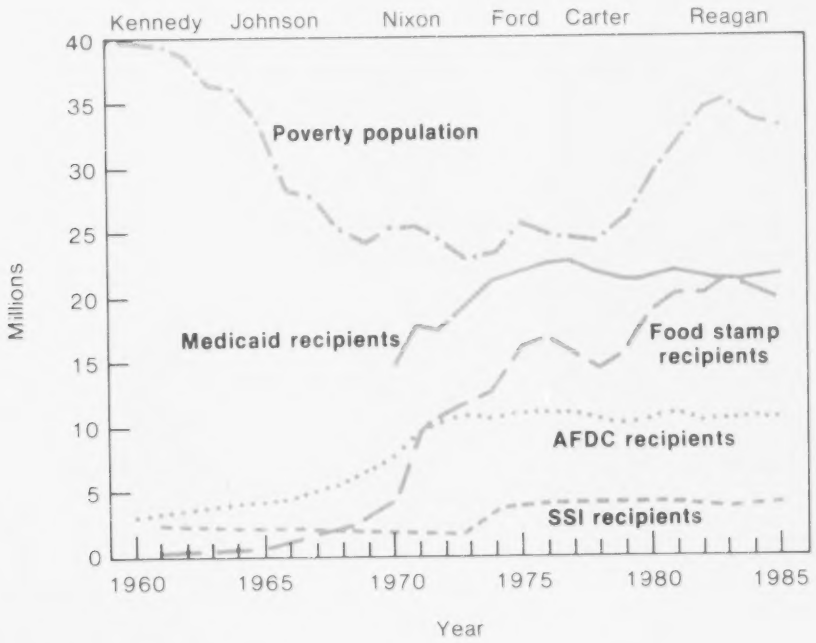
The welfare population, 48 million in 1986, is diverse. However, because program eligibility rules in most states favor mothers with dependent children and because poverty is more concentrated among certain minorities and in some geographic regions, the chances of going on welfare are much greater for those who are black or Hispanic, under age 25, or female. Also, Southerners and residents of central cities and non-metropolitan areas are more likely to be receiving welfare than persons living elsewhere.

Women account for 56 percent of the welfare population. A manifestation of the so-called "feminization of poverty," this large female majority among welfare recipients is mainly due to single mothers with dependent children and elderly widows below the poverty level. It is also partly a product of a system which, in many states, denies assistance if there is an able-bodied man in the family. Almost half of the women heading a family without a husband in 1984 received welfare, compared to only 12 percent among women sharing that duty with a spouse.

About half of all those receiving welfare are under age 25. While most of the elderly do get non-means-tested government aid, like Social Security and Medicare, only 20 percent of those 65 or older received welfare in the first quarter of 1986. By

Figure 1

Recipients of major welfare programs and the poverty population over six presidential administrations, 1960–1985

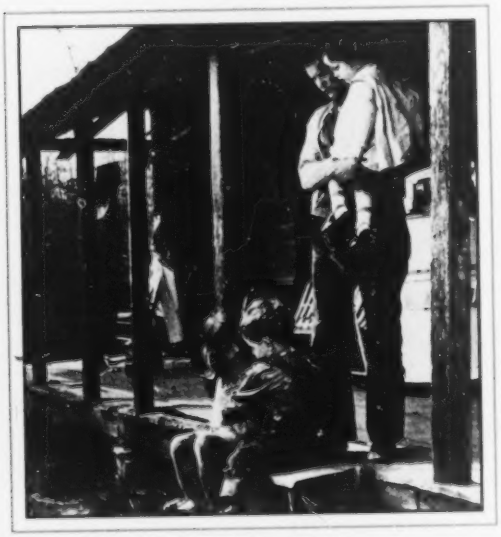


Source: ref. 1

comparison, 30 percent of the children under age 16 and 23 percent of the 16- to 24-year-olds received welfare. During the same months only 16 percent of those in the primary working ages, 25 to 64, were on welfare (see Figure 2).

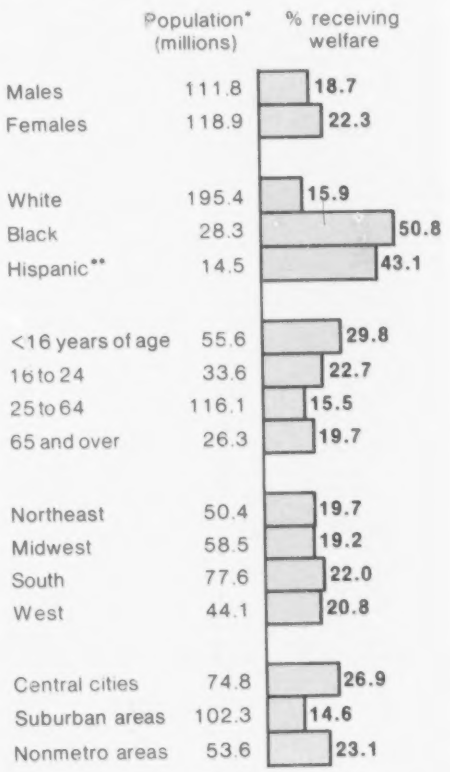
Blacks and Hispanics have a much greater likelihood of going on welfare than whites. Over one-half of all blacks and 43 percent of Hispanics, but only 16 percent of white Americans received welfare in the first quarter of 1986. Blacks are also three times more likely than whites to be poor.[5] Families headed by a black or Hispanic woman often fall into the three highest risk groups: the young, minorities, and female-headed households. Almost three of every four persons living in a family headed by a black or Hispanic woman received welfare at the beginning of 1986.

The share of population receiving welfare is highest in the South, where local economies are supposedly booming, and lowest in the Midwest. Also, the percentages on welfare in 1986 were higher in nonmetropolitan areas (23 percent) than in metropolitan areas (20 percent). Recent economic problems in rural-based industries such as farming, lumbering, and energy production explain some of this geographic difference. Since the *poverty* rate in nonmetropolitan areas is actually 50 percent higher than in metropolitan areas, the difference in use of welfare is smaller than expected. The urban poor may have better access to government programs than their rural counterparts and are perhaps more willing to seek help.



A smaller proportion of the poor in nonmetropolitan areas receive welfare.

Figure 2
Percentage of Americans receiving one or more "means-tested" welfare benefits, first quarter, 1986



*Civilian non-farm population
**May be of any race

Source: ref. 2

Within metropolitan areas, 27 percent of central city residents received welfare compared to only 15 percent of suburban residents.

People raised in welfare families are at high risk of going on welfare. Between 1970 and 1979, about 59 percent of the women brought up in families that received some welfare became recipients themselves as young adults, compared to 27 percent of women from other families.[6] The reasons for this "intergenerational transmission" of poverty and welfare dependence are complex and often debated among welfare reformers.

AFDC Recipients

The oldest of our major welfare programs, AFDC was established by the Social Security Act of 1935. This program is a target for much of the criticism of the system as a whole, and AFDC recipients typify the welfare population to much of the public. Perhaps because the aid is distributed to able-bodied adults who can't support their own children, some view AFDC recipients as costly freeloaders. Much of the proposed welfare reform before the 100th Congress concerns AFDC.

Since the mid-1970s, the number of AFDC recipients has remained fairly constant. The proportion of AFDC recipients who are black or Hispanic—43 and 12 percent, respectively, in 1983—has remained about the same, but other AFDC characteristics have changed. Compared to 1973, AFDC families in 1983 had fewer children; those children were more likely to be under age 6 and less likely to have a father living with them.[7]

Dispelling the image of welfare households teeming with children, the average AFDC family had only two children under age 18 in 1983, just about the same as in an average American family. But 60 percent of the AFDC families had a child under age 6, compared to only 22 percent of all families. The preponderance of young children among AFDC families reflects the fact that many mothers return to work and become self-supporting after their youngest child enters school. Some research suggests that many of these mothers would return to work sooner, possibly leaving the welfare system, if affordable child care were available to them.[8]

Blacks, only 12 percent of the U.S. population, make up 43 percent of the AFDC population. Because blacks have higher rates of teenage childbearing and are more likely than other minority groups or whites to be poor, they form a disproportionate share of the AFDC population (Table 1).

AFDC recipients have fewer assets than the average American family, leaving them no financial cushion for the lean months. In 1983, only 20 percent of the 3.6 million AFDC families claimed any assets. For those families, total assets averaged $876, compared to assets near $30,000 for all households. And the Cadillac-driving welfare queen is a rarity: only 7 percent of AFDC families owned a motor vehicle, averaging $2,261 in value.[9]

In sharp contrast to the AFDC recipients, only 6 percent of the 4.2 million SSI recipients were under age 18 in 1986, and women outnumbered men two to one. About 64 percent of SSI recipients were white, 30 percent black, and 6 percent other races. Sixty-three percent of enrollees qualified because they were disabled, 35 percent were needy elderly, and only 2 percent were blind.

Table 1
AFDC recipients, 1983

No. of families	3.6 million
Black*	43%
White non-Hispanic	41
Hispanic	13
No. of AFDC children	7.0 million
Under age 6	42%
6 to 11 years	32
12 to 18 years	26
No. of AFDC "mothers"**	3.2 million
19 to 29 years	73%
30 and over	27

*Race/ethnicity of family head; excludes "other"
**Or other relative or guardian; excludes 4 million "fathers"

Source: ref. 3

Welfare—a Way of Life?

Do most families use welfare for short time periods to deal with a crisis such as sudden unemployment or a divorce, or do they stay on welfare for long periods, making it their way of life? If the first is true, then welfare creates an important bridge from one stable situation to another; if the second, then welfare could be considered a trap, sapping the will for independence and discouraging recipients from working.

Fortunately, welfare is most often used as a bridge. The majority of people who enter the AFDC program stay on welfare for a relatively short period of time—less than three years—but a significant minority become long-term welfare recipients.[10] Between 1970 and 1979, about 15 percent of AFDC recipients spent 8 to 10 years on welfare. In 1983, about 61 percent of the AFDC recipients surveyed had received AFDC for less than three years, but almost a quarter had been receiving it continuously for at least five years.

While a relatively small share of people entering the welfare system are likely to end up as long-term users, this group has a big impact on welfare

costs. According to one study, about one-half the welfare recipients at any point in time will experience a spell of welfare of ten years or more.[11] Women, blacks, and residents of large cities are more likely to become long-term welfare dependents than are men, whites, or rural residents.

The movement into or out of the welfare system is usually tied to a change in family or living status. During the 1970s, 45 percent of the new AFDC recipients entered the program because they had recently divorced or separated; another 30 percent were unmarried women with a new baby. Only 16 percent required assistance because of loss of income. Conversely, 35 percent of those leaving the rolls did so because of marriage, and 11 percent because a child left home. Over one-quarter left because their incomes increased.

How Much Do They Get?

In January 1987, the average AFDC cash grant for a single-parent family with two children was $354 per month, but this is only a portion of the aid a family might receive.[12] It is difficult to calculate the total value of benefits received by a typical needy person since benefits vary by state of residence and much of the federal aid is noncash assistance such as public housing and medical care. However, available data from 1965 to 1985 reveal two interesting points: (1) the total amount spent on welfare rose rapidly until 1980, but has leveled off since then; and (2) the primary type of welfare benefits has shifted from cash to noncash assistance. In 1985, 65 percent of federal means-tested benefits were in the form of noncash benefits, compared to only 24 percent in 1965.

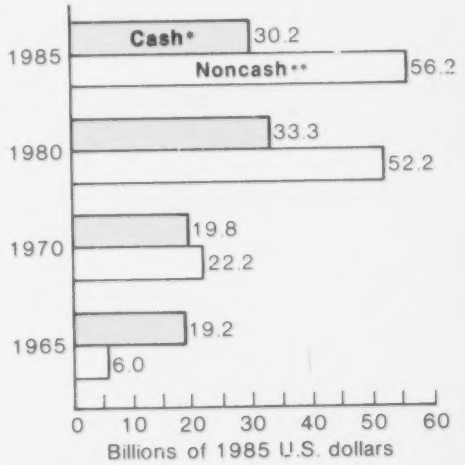
Means-tested cash assistance actually declined by about 10 percent between 1980 and 1985, while noncash benefits continued to rise (see Figure 3). The main reason for the slight upturn in welfare expenditures in the early 1980s was the dramatic increase in health care costs, causing a 15 percent increase in Medicaid outlays.

The distinction between cash and noncash benefits is important because only cash benefits are counted as income in poverty statistics. In addition, the political choice of delivering assistance as cash or in services such as public housing or free medical care raises deep philosophical questions about the relationship between government and welfare recipients. Cash assistance allows recipients to decide what goods or services to purchase, but it carries an enormous potential for misuse. Noncash benefits allow recipients no choice of how to spend their resources and places the government in a paternalistic role.

The average expenditure per AFDC recipient, in constant 1985 dollars, fell significantly between 1975 and 1985, reflecting the overall decline in cash welfare payments, but also revealing the extent to which inflation has eroded the real value of AFDC benefits (see Figure 4). Unlike Social Security and SSI, which are pegged to the Consumer Price Index and updated annually, AFDC benefits are not regularly adjusted to reflect inflation. The failure to adjust AFDC benefits for inflation is a major reason why the poverty rate for children has increased in recent years while the poverty rate for the elderly—whose Social Security payments increase with inflation—has decreased.

To estimate the financial trade-off between working or going on welfare, the 1986 White House welfare reform study calculated the value of a welfare package combining six different programs—AFDC; Medicaid; Food Stamps; Section 8 subsidized housing; the nutritional program for Women, Infants, and Children (WIC); and School

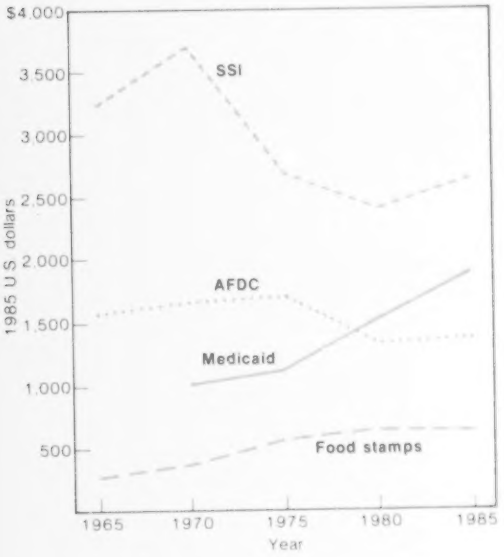
Figure 3
Expenditures on major federal and state welfare programs, 1965-1985



*AFDC, General Assistance, SSI, and Means-Tested Veterans pensions
**Food Stamps, Medicaid, Public Housing, and School Lunches

Source: ref. 4

Figure 4
Annual expenditures per recipient by federal, state, and local governments, four major welfare programs, 1965-1985 (in 1985 U.S. dollars)



Source: ref. 5

Meals—and compared it to likely earnings if a recipient were to get a job.

While all these welfare programs may be available in theory, relatively few poor families receive benefits from many programs simultaneously. In 1985, only 5 percent of the nearly 12 million poverty households received cash assistance plus benefits from four noncash programs.[13] Comparing the value of welfare benefits from a combination of six programs to the benefits of working is not a realistic comparison of the work/welfare trade-offs actually confronting most poor families.

But enrollment in one welfare program, especially AFDC, increases the chances of receiving assistance from two to three other programs. In most states, participation in the AFDC program automatically makes family members eligible for food stamps and Medicaid. In 1985, about 80 percent of those receiving AFDC also received food stamps, 95 percent received Medicaid, and 26 percent used public housing.[14]

In 1985, about 80 percent of all AFDC recipients also participated in the Food Stamp program.

Demographics and Welfare Programs

The links between demographic change and welfare programs are many, but it is not clear which has the greater impact on the other. For example, an increase in the elderly has swelled the number of SSI recipients. On the other hand, some contend that generous welfare benefits in some states attract migrants from other parts of the country. In fact, the migration of millions of Americans out of the Northern states, where AFDC benefits are highest, into the South, where they are lower, has held down overall welfare costs during the past 25 years.

Some analysts allege that demographic changes within the American family have boosted welfare costs. Specifically, they say that the dramatic increase in single-parent families, tied to high divorce rates, along with the rising rates of out-of-wedlock births has created a larger population in need of AFDC and associated programs. Although teenage mothers produce only a small share of all U.S. births, they often are not married and need welfare. According to one recent report, in 1986, "Taxpayers spent nearly $18 million on food stamps, medical care, and cash assistance for families begun as a result of teenagers giving birth . . . ."[15] However, most increases in social program expenditures have gone to aid the elderly, not female-headed families.[16]

Does Welfare Break Up Families?

While some researchers contend that demographic changes have had an impact on welfare programs, others believe these programs have had a profound impact on the composition of American families.

Since federal funds for social programs and the number of female-headed families have both increased dramatically over the past 25 years, there is a temptation to blame federal welfare programs for fostering family instability.[17] Recently, President Reagan stated, "There is no question that many well-intentioned Great Society-type programs contributed to family breakups, welfare dependency, and a large increase in out-of-wedlock births."[18] However, most of the scientific evidence suggests otherwise.

The most comprehensive statistical study in this area found that welfare benefit levels do not encourage out-of-wedlock births or the breakup of families.[19] However, researchers have found that young unmarried mothers in states with high welfare benefits are more likely to set up their own households, while those in states with low benefits are more likely to live with the mother's parents.

States with generous welfare payments have about the same percentage of households headed by women as states with very low average welfare payments, probable evidence that welfare benefits do not encourage the formation of female-headed households. In 1980, monthly AFDC payments for a family of four were lowest in Mississippi ($160) and highest in New York and California (above $500), but the percentage of households headed by women in these states were almost identical in 1980: 16 percent in Mississippi, 18 percent in New York, and 15 percent in California.

While the number of single-parent families increased by 42 percent between 1975 and 1985, the number of AFDC families has stayed about 3.5 million since 1975. If women are leaving their husbands or having children out of wedlock to collect welfare, why don't they show up on the AFDC rolls?

Also, the real value of welfare benefits has been shrinking at the same time the number of female-headed families has been expanding so dramatically. The value of the combined benefits of AFDC and food stamps, adjusted for inflation, decreased by 20 percent between 1972 and 1986.[20] If welfare caused families to break up, the number of female-headed families would be decreasing along with the value of welfare benefits.

High welfare benefits do not encourage family instability.

Variation Among States

The bewildering nature of our welfare system stems from the fact that the funding and administration of programs often involve several layers of government. Some programs, notably Food Stamps, are run solely by the federal government, while others are completely state administered (e.g., General Assistance). But many, AFDC for example, involve shared federal/state responsibility. The states may extend some benefits to needy groups not covered under federal rules, causing significant variation among them in who qualifies for which programs. For example, federal guidelines require states to provide AFDC assistance to needy children in single-parent families, but states may expand eligibility rules to include children in needy married-couple families. Only about half the states have done this.

Currently the U.S. government pays about 75 percent of the cost of welfare programs, but the state share is likely to increase as the federal government conforms to the spending restrictions of the Gramm-Rudman-Hollings balanced-budget legislation. Because costs of living and personal incomes vary greatly among states, more state involvement may mean even less uniformity in welfare eligibility and benefits.

The value of benefits already varies wildly among states. In January 1987, the maximum monthly AFDC grant for a family of three in Mississippi was $120, but in California, it was $617 a month.[21] On average, the combined value of AFDC payments and food stamps equals just 74 percent of the official poverty level. But in Alabama and Mississippi, AFDC cash payments plus food stamps provide a needy family with only 46 per-

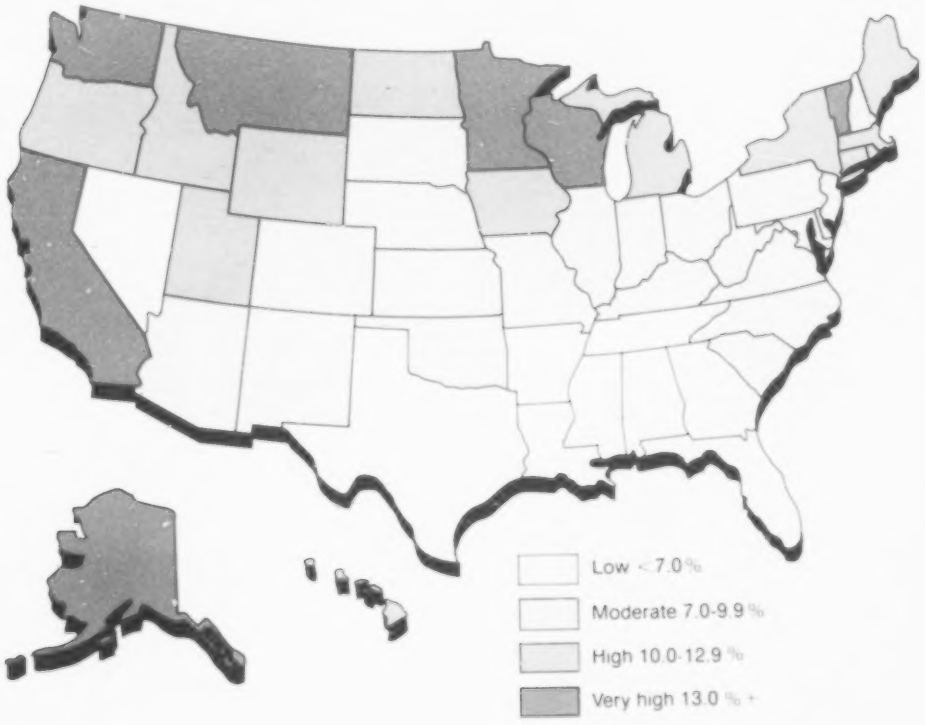
cent of the poverty level. The most generous state (other than Alaska) is California, where the combined benefits bring a family up to 99 percent of the poverty threshold.

The average AFDC payment per recipient in the Southern states is a little over half the average payments in the other states, after adjusting for the lower incomes in the South, as shown in Figure 5. In Alabama and Mississippi, per capita welfare payments are less than 5 percent of the state per capita income. In California, they equal 13 percent of state per capita income, and in New York, 11 percent. Since blacks are overrepresented in the South, particularly the deep South where benefits are the lowest, they suffer the worst consequences of these regional disparities.

The national AFDC caseload has been relatively constant since 1972, yet important changes have occurred among the states (see Figure 6, page 12). Two kinds of states had big increases in AFDC caseloads between 1980 and 1985: fast-growing states and states hit by hard times. California gained the most AFDC cases between 1980 and 1985 (206,277), primarily because of its rapid population growth over that period. On the other hand, large increases in AFDC caseloads in Ohio, Illinois, and Wisconsin were due to economic problems in those states, not population growth.

Between 1980 and 1985, the 28 states with below-average AFDC benefits attracted, on average, 97,000 more migrants than states with high benefits, largely reflecting the greater economic strength of the South relative to the Northeast and Midwest. Clearly, the attraction for those willing to move to another state is the promise of jobs rather than the potential for generous welfare benefits.

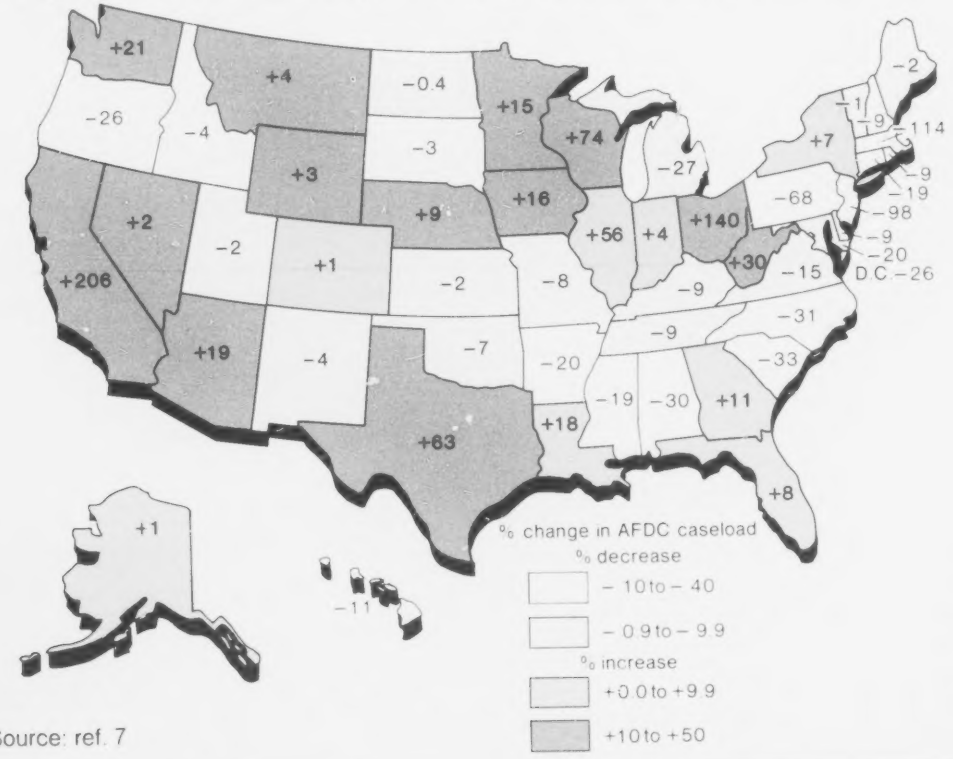
Figure 5
AFDC cash benefit levels as a percentage of state per capita income, 1985



Source: ref. 6

Figure 6

Changes in AFDC caseloads by state, 1980–1985 (thousands of recipients)



Source: ref. 7

The Poverty Gap

Does welfare reduce poverty? The number of people lifted out of poverty by welfare is one measure of this; another is the extent to which welfare closes the "poverty gap." The poverty gap is the amount of money needed to raise an individual's income to the poverty level. The aggregate poverty gap is the amount of money it would take to raise the incomes of all poor persons up to the poverty level.

In recent years, the "poverty gap" has been around $50 billion, which means that if $50 billion in public assistance were added to the amount already spent on cash welfare and distributed with perfect efficiency, no American would have an income below the poverty line.

The failure of the current system to fill the poverty gap, that is, to bring every family's income up to the poverty line, provoked harsh criticism in the 1986 White House welfare reform study. The study concluded that welfare expenditures have been sufficient to eliminate poverty but they have been off target, missing the very population they are intended to help. In fiscal year 1985, the government spent at least $130 billion on welfare, but we still had 33 million people in poverty.

There are several reasons the poverty gap continues despite the billions spent on welfare. First, noncash welfare expenditures are not reflected in official poverty statistics because they are not counted as income. However, even when the value of noncash benefits is added to recipients' incomes—using any of the three popular methods for doing this—the number of Americans below the poverty threshold remains between 22 and 30 million.

Second, most government programs are designed to provide minimum subsistence for the needy, not to raise incomes enough to move families out of poverty. For example, the median value of monthly cash welfare payments plus food

stamps for a family of three in January 1986 was $524, equaling an annual income of $6,288. The government's 1986 official poverty level for this type of family was 39 percent higher than this: $8,737. Only in Alaska do the combined benefits of AFDC and Food Stamps provide families with an income above the poverty level.

Third, because the poverty index is seldom used for eligibility, many programs provide benefits to people with incomes above the poverty line. These welfare expenditures understandably don't reduce the poverty gap.

Finally, some welfare benefits, particularly Medicaid, go to people living in nursing homes and other group quarters or to the homeless who are missed by the poverty statistics.

Government assistance helps reduce poverty, but mainly among those who receive nonmeans-tested assistance. The Congressional Budget Office estimated that, in 1985, 17.4 million people were pushed above the poverty level by direct government payments. Without this aid the poverty population would have reached 51 million.[22] But most of these payments were through Social Security, unemployment benefits, and other nonmeans-tested programs. In 1985, only two million persons were lifted out of poverty by means-tested cash welfare payments.

Finding and Keeping Jobs

Most public assistance programs have some form of work requirement for recipients unless they are ill, disabled, or have caretaker responsibilities. The main thrust of the welfare reform movement has been to expand and enhance this program component in an effort to reduce long-term welfare dependency.

Many long-term welfare recipients are handicapped by their low levels of education and lack of work experience. Many never finished high school and have basic reading skills below the ninth grade level. For these people, occupational training must be preceded by remedial education if they are expected to hold a job which pays enough to support a family. But these programs can be time-consuming for the student and costly for the government. One experimental program cost $5,833 (1976 dollars) per participant and required an average enrollment period of nine months. Even then, the program reported only mixed success.

Unfortunately, job training and placement services would reach only a fraction of all poor adults, especially if they are tied to AFDC as proposed under current legislation. Less than one-fifth of the

Job training programs attempt to reduce welfare dependency through employment.

20 million adults in poverty participate in the AFDC program. Even if such programs cut the number of AFDC recipients in half, the number of adults in poverty would fall by less than 10 percent.

Although formal evaluations of the most recent work/welfare initiatives have not been completed, initial findings suggest that the programs do increase employment and earnings for participants, but not by very much. For many participants, earnings are not increased enough to shake free of welfare dependence or rise above the poverty line.

Since most people move off welfare after a short time anyway, the work-related programs would not affect their long-term welfare dependency and would probably have only a trivial impact on the time they spend on welfare.

The Future Welfare Population

The number and type of welfare recipients in future years depends on the health of the American economy and the course of welfare reform. But population growth, along with changes in the age structure, geographic distribution, and living arrangements of Americans will also have some impact on the need for welfare programs.

The Census Bureau projects that we will add 29 million Americans between 1985 and the year 2000. With no changes in the distribution of people and households, the number of welfare recipients

Between 1986 and 2000, the welfare population will grow older along with the total population.

in the year 2000 would be about 53.5 million, up from 47.5 million in 1986.

However, the characteristics of people and households *will* change between now and the year 2000. Three major demographic trends affecting the welfare population are (1) the aging of the U.S. population; (2) continued migration from the Northeast and Midwest into the Southern and Western states; and (3) the increase in single-parent families and nonfamily households.

Between 1986 and the year 2000, the large cohort of Americans born during the baby boom, 1947 to 1964, will move into the 35-to-54 age group, and the median age of the U.S. will creep from 32 to 36 years of age. The welfare population will also grow older, but the loss of welfare recipients among the young will be offset by increases among the middle-aged and the elderly. The number of welfare households headed by an adult under age 35 will actually decrease by 500,000 between 1986 and 2000, but the number headed by an adult age 35 to 54 will swell by 2.5 million, and the number headed by an individual age 65 and over is likely to expand from 3.8 to 4.8 million.

Current migration trends are likely to significantly increase the population of the South and West while the Northeast and Midwest remain about the same. If 1986 rates continue, the number of welfare recipients would change little in the Northeast or Midwest, but would increase by almost 5 million in the South and by nearly 4 million in the West by 2000. This could lower the nation's overall welfare bill, because Southern states, where the largest increase is likely to occur, offer far lower benefits than Northern states.

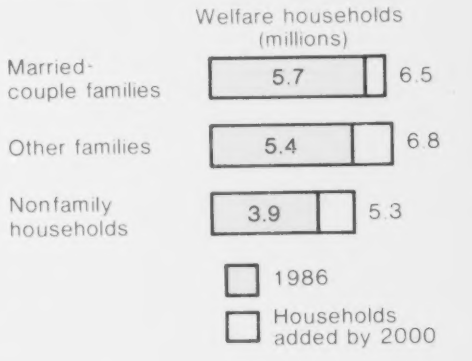
By the end of this century, the traditional married-couple family may account for less than half of all households because single-parent families and "nonfamily" households (primarily, persons living alone) are growing faster. Since single-parent families and nonfamily households use welfare at higher rates than married-couple families, these trends will increase the welfare rolls.

The number of married-couple family households is projected to increase by 6.9 million between 1986 and 2000. But since only 12 percent of these households receive welfare, they will add only 800,000 households to the welfare population during that period. In sharp contrast, 42 percent of the other types of families received welfare in 1986. Projected to grow by 3.3 million between 1986 and 2000, they will add 1.4 million welfare households in only 14 years. Nonfamily households are expected to add another 1.4 million households to the welfare system by 2000 (see Figure 7).

Immigration to the U.S. is another demographic trend which will affect the welfare population, particularly in areas like southern California and south Texas which attract many migrants from Asia and Latin America. However, because little is known about the current use of welfare by immigrants, especially illegals, it is difficult to forecast the national impact of future immigration. The flow of illegal immigrants may be slowed by the 1986 Immigration Reform Act which instituted fines for employers who hire illegal aliens.

Figure 7

Increases in welfare households, 1986-2000



Source: ref. 8

Policy Initiatives

While few people are happy with our current welfare system, there is little agreement on how to improve it. Most of the suggested policy reforms focus on efforts to increase a recipient's chances of getting off, and staying off, welfare through steady employment and to strengthen federal involvement in order to narrow differences between states and expand benefits. Another concern among policymakers has been reducing the needless costs of welfare fraud and inefficiency.

There is a growing consensus that welfare recipients have an obligation to work if possible and that the system should promote work over welfare. States have been encouraged to incorporate employment incentives into their welfare programs. The types of programs initiated include:

- Work Incentive (WIN) projects to educate, train, and find jobs for AFDC recipients
- "Workfare" programs which require AFDC recipients to work on community projects
- Structured job search efforts, sometimes through a "job club"
- Work Supplementation which diverts welfare benefits to job training

The success of these programs in helping welfare recipients stay off the rolls is inconclusive, but these are relatively new initiatives and all the evidence has not come in. Among the new programs which might provide better data to evaluate these efforts are California's GAIN, launched in 1986, and the Boston area's ET program.

Welfare-to-work schemes enjoy broad bipartisan support. Legislation being considered by the 100th Congress includes various approaches to encourage welfare recipients to work, such as:

- Pay part of the child care and transportation costs of employed recipients
- Allow employed recipients to keep more of their earnings without losing benefits
- Extend Medicaid and child care benefits for several months after a recipient leaves welfare to start a job, lessening the financial risk of giving up welfare eligibility

States will probably be required to incorporate broader job training programs in their welfare systems and to make it mandatory for more recipients to participate in them. In 1983, about two-thirds of the women receiving AFDC were exempt from work programs. The new programs may excuse only parents with children under age three or those with no access to child care. But the potential for reducing the size of the welfare or poverty populations appears to be fairly minor.

There are strong opposing views on the relative roles the states and the federal government ought to play. Many observers, including the White House welfare reform panel, think the states should be free to design unique, experimental programs with minimal federal control. Others feel that our haphazard welfare system requires federal oversight and coordination. Some of the reforms currently before Congress would intensify the federal presence by requiring states to:

- Extend AFDC to needy children from two-parent families
- Intensify efforts to identify and contact fathers of welfare children
- Authorize deduction of child support from a parent's (often an absent father's) paycheck
- Offer welfare eligibility to unmarried parents under age 18 only if they live with their own parents or in a state-regulated home
- Boost state benefit payments, with the U.S. government absorbing most of the increase

Critics claim these proposals will cost too much—an estimated $2.3 to $5.2 billion over 5 years, depending on which proposals are actually implemented—and probably wouldn't work. Estranged fathers of AFDC children, for example, may deny paternity and, even if it is proved, may not earn enough to help support their children.

Other welfare reformers want to adjust AFDC benefits to keep up with inflation and set a national minimum for program benefits.

The large difference between the welfare and poverty populations is another area of concern. This gap arose partly because welfare programs target only those needy people who cannot care for themselves: children, the disabled, the elderly, and their caretakers. Few reformers want to extend eligibility to every poor person, but some do propose including the "working poor" in job training programs to erode the causes of poverty.

But part of the gap between the welfare and poverty populations is purely statistical. The poverty index was developed hurriedly 20 years ago, and few welfare programs rely on it anyway. Some experts contend the index needs major revision.

However, regardless of what welfare reforms are initiated or how precise we become in the measurement of poverty, welfare and poverty will be with us for many years to come.

Footnotes

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2. *Up from Dependency: A New National Public Assistance Strategy*, Report to the President by the Domestic Policy Council Low-Income Opportunity Working Group (Washington, D.C.: Dec. 1986), p. 28.
3. Roberton Williams, "Measuring Poverty with the SIPP and the CPS," paper for the 1986 Research Conference of the Association for Public Policy Analysis and Management, Austin, Tex., Oct. 30-Nov. 1, 1986.
4. U.S. Bureau of the Census, "Receipt of Selected Noncash Benefits: 1985," *Current Population Reports*, Series P-60, No. 155, January 1987, Tables A and 10.
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